



EFFECT OF CASH MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN VISAKHAPATNAM AND VIZIANAGARAM DISTRICTS OF ANDHRA PRADESH, INDIA

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Abstract:

In any economy, small and medium-sized enterprises (SMEs) play an important role because they are capable of generating employment, fostering GDP growth, embarking on innovation and stimulating other economic activities. The foundation of all developed and emerging nations is said to be this business. The growth of the small and medium-sized enterprises (SME) sector is of vital importance to every country, regardless of its level of development, as this sector has great potential to produce full socio-economic benefits for a country with a minimum level of investment. In their first five years of existence, the number of small and medium-scale enterprises die, and a few numbers of companies go through extinction between the sixth and tenth years. Yet 5 % to 10% of small and medium-sized companies will thrive, prosper, and mature. The cause for this is not simply a lack of money and it could be poor cash management practises. The investigator sought to examine cash management activities of small and medium businesses in this article. A comprehensive analysis with a formal questionnaire from a survey of 360 including 346 small and 14 medium-sized enterprises in the districts of Visakhapatnam and Vizianagaram was used.

Keywords: cash management, small and medium enterprises, financial performance

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1. Introduction

Based on the role played by Small and Medium Enterprises (SMEs), the Gross Domestic Product (GDP) of any country can be either increased or diminished. It is worthwhile to be able to create jobs, to encourage creativity and to stimulate other economic activities.

The foundation of all developed and emerging nations is said to be this business. The growth of the small and medium-sized enterprises (SME) sector is of vital importance to every country, regardless of its level of development, as this sector has great potential to produce full socio-economic benefits for a country with a minimum level of investment.

Together with regional dispersions of cottage and small-scale industrial enterprises, relatively labor-intensive enterprises allow significant employment opportunities to be generated. Small to medium-sized businesses with a greater capacity to leverage and divert financial capital into a country's market, which would otherwise have been used for consumption purposes rather than spending money in the rural economy. Developing small and medium-sized enterprises (SMEs) may be an aid to foster sustainable regional growth. Most notably, the Small and Medium Enterprises (SME) market offers additional value for the full use of the country's indigenous capital. The SME sector will then become an important feature for developed countries, as it is typically burdened by the problems of poverty and unemployment.

Agriculture was the foundation of our nation in ancient times. But since industrialization, our country's small and medium-sized companies are known as the bedrock of our economy, leading to 45 percent of industrial production and 40 percent of our exports, providing 1.3 million jobs per year for 60 million workers and manufacturing more than 8,000 premium goods for the Indian and foreign markets. The Government of India is taking various steps to improve its competitiveness in the foreign market, with nearly 30 million small and medium businesses in India, 12 million people projected to join the workforce in the coming years, and the small and medium enterprises (SMEs) sector increasing at a rate of 8 percent per year.

There are several factors which have contributed to Indian SMEs' development. Few of these include: financing of small and medium-sized businesses by local and international buyers, new technologies used in the industry supporting small and medium-sized enterprises to bring substantial value to small and medium-sized enterprises, numerous company directories and business portals helping facilities to exchange between the customer and the seller, thus reducing trade barriers. With this tremendous opportunity, backed by strong government funding, Indian small and medium-sized companies continue to present their growth stories. Other than this strong growth of Indian Small and Medium Businesses, which still remains untapped, there must be the greatest opportunity. If this is tapped by Small and Medium Businesses, the expansion of these units would be part of the increase in Gross Domestic Product (GDP) higher than that of the economic activity of the world in the USA, China and Russia etc.

In their first five years of life, the most of the small and medium-scale businesses die and a few numbers of companies go through extinction between the sixth and tenth years, but few around 5 to 10 percent can succeed, prosper and grow to higher maturity. Many variables are regarded, according to the available literature, as causes for the premature death of small and medium-scale enterprises. Lack of investment, inadequate and erratic availability of energy, insufficient facilities, lack of focus on business development, lack of market analysis, greater focus on one or more finished products and services sectors, lack of succession plans, lack of expertise, lack of proper bookkeeping, lack of appropriate documents or records, failure to distinguish companies. Small to medium-sized enterprises usually have financial difficulties. Lack of funding and lack of exposure to funds are their biggest issues. The strict requirements imposed by many financial institutions, the lack of sufficient collateral and credit records and the cost of accessing funds (Adepoju, 2003) are the key factors described as inhibiting the accessibility of funds.

Wealth and growth in today's world economy are primarily driven by optimal cash management practices. Several studies report that cash management practices are associated with a firm's innovative financial results and an optimal cash balance that enables a firm to minimize the holding and opportunity costs associated with small and medium enterprises (SME's) cash balances. Hence, the management of a company should improve cash management practices to enhance innovative performance. In the same way, micro and small-scale enterprises usually face some difficulties with short of security, inappropriate financial statement preparations well as unproductive accounts preparation and ineffective cash practices in the businesses.

1.1 What is Cash Management?

Cash management is a method used by businesses to collect and handle cash and to use cash within a limited period of time to spend. It is a core component of the financial security and solvency of a company. In order to stay stable, company treasurers or general administrators are also responsible for total cash control and associated duties.

2. Literature of Review

2.1 Cash Management Practices

For the aim of maximising liquidity, cash management is a corporate technique for handling cash (Linert, 2009). In particular, Deb, Dey, and Shil (2015) described cash management as handling I cash flows into and out of the business, (ii) cash flows within the company, and (iii) cash balances being retained at a point in time by the company. In order to meet the targeted goals and objectives, each organisation needs to provide adequate financial management by improving its allocation and cash preparation. Strong cash management would also ensure that the corporation will be able to accomplish its core goals in the long run and prepare for a good strategy.

While cash management is a good and significant practise, it is not practised by many micro and small enterprises (Jayabalan, Dorasamy, Roman & Ching, 2009; Sunday, 2011; Alala, Deya & Busaha, 2013). One of the serious issues with cash management activities, according to Abanis, Sunday, Burani, and Eliabu (2013), is that certain firms do not have a bank account to track and monitor their company profits and expenditures. If they have a bank account, the organisation will be able to mitigate the cash scarcity trend, set the minimum cash balance, and have a monthly cash book reconciliation with the bank to monitor their cash.

2.2 The Major Issues in Cash Management Practices

Muinde (2013) argued that in economic contribution, property alleviation, and employment, small and medium enterprises (SMEs) play a vital role. Small and medium businesses, however, face many limitations, especially in the implementation of cash management practises.

Among the vulnerabilities that exist in microenterprises in terms of cash management, according to Abanis, Sunday, Burani, and Eliabu (2013), most owners do not have a bank account to monitor their sales. This question emerged because they had no expertise with the administration of an organisation. If there is some loss of capital, this can cause the owner to be unable to handle their currency. Furthermore, book account unavailability will reduce the owner's ability to monitor their cash balance and control the use of their cash ('The value of keeping the company accounting documents on top', 2015). In addition, for each corporation, the monthly reconciliation of the cash book with the bank to track their cash is necessary. From that, if there is any cash concern, the owner will be conscious and will be able to change their cash activities.

In South Africa and Uganda, study has found that cash management practises are weak in SMEs (Avika & Hari, 2014; Abanis et al., 2013). Without an effective approach and with weak cash management skills, a variety of small companies are being run. A company's productivity in handling cash will impact the growth of business operations. Company practises can be impacted by inability to do so, as the sustenance of business activities can come to a halt. Marion (2011) has revealed that three companies out of five have collapsed within a brief amount of time-three years. It illustrates that entrepreneurs must have effective plans to ensure that they can accomplish their goals in order to be competitive in business. In addition, data related to SME funding clearly suggests, according to Guptaa, Wilsonb, Gregorioua, and Healya (2014), that companies that are unable to achieve adequate operational cash flow (OCF) are more vulnerable to bankruptcy.

Problems in cash management activities emerge, according to Gilbert, Nelson, and Nicholas (2013), where the management takes the value of handling cash for granted. This arises because there is no emphasis on cash management by the entrepreneur. This will directly impact the activity of business. If corporations do not budget for cash management, if there is any deficit in the organisation, they will be ignorant. Then, the credit is received from the bank as the firms understand the deficit and the need to

recover. As they struggle to increase their cash to offset the damages, and are unable to pay their debts, this would trigger the winding up of the firms.

As there is scant literature on cash management in Andhra Pradesh, this report is capable of filling the gaps. This research therefore aims to examine the latest cash management activities in Andhra Pradesh in micro and small enterprises.

3. Research Methodology

3.1 Sampling Framework

The sample firms were randomly selected from Visakhapatnam and Vizianagaram districts. The sample was stratified by firm size, class and economic activity. After having stratum from different enterprises, the number of enterprises from each stratum is adjusted to maximize the accuracy in the data in each class. To minimize the personal bias the mixed-method is adopted. There are around 1387 small scale 57 medium scale enterprises are operating a business in Vizianagaram and Srikakulam districts. Out of these 25 percent is taken as the sample. i.e. 346 from small scale and 14 from the medium scale (sample: 360).

3.2 The Instrument of Research

The interview schedule is an observational technique frequently used to gather personal details and views. It offers a means for subjects who would not be obtainable using other approaches to gather personal information. Structured answers are given in the questionnaire, which must be carefully established and updated to collect accurate results.

3.3 Tools Applied in the Study

In compliance with the outline laid down for the purpose of justifying the goal and the theories framed at the time of designing a study design, the data gathered through the well-structured interview schedule was categorised and tabulated for review. The following statistical methods were used to evaluate data and draw inferences: frequency distribution measurement, standard deviations, and cross-tabulations, scaling methodology of Likert (5 point scale), test of Chi-Square, test of ANOVA.

4. Discussion

4.1 Effect of Cash management Practices on Financial Performance of SMEs

Table 1: The frequency of occurring various factors of cash

S. No	Sub Scales	Frequencies (Percentage)					N	Mean	S.D
		Never	Rarely	Sometimes	Often	Always			
1	Preparing cash budget	00 (00)	19 (5.3)	200 (55.6)	104 (28.9)	37 (10.3)	360 (100)	3.43	0.74
2	Determining the target cash balance	00 (00)	18 (5.0)	227 (63.1)	84 (23.3)	31 (8.6)	360 (100)	3.35	0.70
3	Occurring cash shortage	00 (00)	24 (6.7)	227 (63.1)	78 (21.7)	31 (8.6)	360 (100)	3.32	0.71
4	Occurring cash surplus	00 (00)	32 (8.9)	213 (59.2)	84 (23.3)	31 (8.6)	360 (100)	3.32	0.74

Cash management practices of small and medium enterprises are interpreted and shown in the above table. 55.6 percent of the enterprises said that they prepare cash budget occasionally; 63.1 percent of the enterprises said that they determine the target cash balance occasionally; 63.1 percent of the enterprises said that they get cash shortage occasionally, and 59.2 percent of the enterprises said that they get cash surplus occasionally.

Table 2: Perception of the preparation of cash budget and review

S. No	Sub Scales	Frequencies (Percentage)						N	Mean	S.D
		Never	Weekly	Monthly	Quarterly	Half-yearly	Yearly			
1	Preparing cash budget	00 (00)	06 (1.7)	341 (94.7)	13 (3.6)	00 (00)	00 (00)	360 (100)	2.02	0.23
2	Reviewing cash budget	00 (00)	06 (1.7)	327 (90.8)	27 (7.5)	00 (00)	00 (00)	360 (100)	2.06	0.29

Perception of the preparation of cash budget and review of small and medium enterprises are interpreted and shown in the above table. 94.7 percent of the enterprises said that they prepare cash budget monthly; 90.8 percent of the enterprises said that they are reviewing cash budget on a monthly basis.

Table 3: The areas where the computer is used in cash management

The area where the computer is used		Type of the organization		Total
		Small Scale	Medium Scale	
Preparing cash budget	Count % within Type of the Org	21 6.1%	1 7.1%	22 6.1%
Recording cash transactions	Count % within Type of the Org	71 20.5%	4 28.6%	75 20.8%
Both	Count % within Type of the Org	254 73.4%	9 64.3%	263 73.1%
Total	Count % within Type of the Org	346 100%	14 100%	360 100.0%

The area of applications of computers in cash management is discussed in the above table. The majority (73.1 percent) of the enterprises said that they use computers in the applications of both 'preparing cash budget' and in 'recording cash transactions'. 20.8 percent of the enterprises said that they use computers in 'recording cash transactions' and only 6.1 percent of the enterprises said that they use computers in 'preparing cash budget'.

Table 4: The efficiency of cash management

S. No	Factors	N	Mean	Std. Deviation	Std. Error Mean	T-value	P-value
1	What does the company understand cash handling practises?	360	3.33	.737	.041	81.289	.000 *
2	How does the organisation routinely plan cash budgets?	360	3.72	.449	.025	149.355	.000 *
3	What is the owner / boss interested in the planning and use of cash budgets?	360	3.70	.794	.044	83.979	.000 *
4	Does the manager or director view the use of cash budgets?	360	3.58	.617	.034	104.312	.000 *
5	How useful are cash budgets of your business in providing information for marking decisions?	360	3.50	.761	.042	82.872	.000 *
6	To determine the target cash balance, how can you apply theories of cash management.	360	3.62	.516	.029	126.355	.000 *
7	How acceptable is the target cash balance determined in your business	360	3.65	.551	.031	119.004	.000 *

*Significance at 0.01

Perceptions of the respondents on the efficiency of cash management practices are shown in the above table. From the above table, it is interpreted that, the mean (3.72) represents the enterprises are efficient in preparing cash budgets. The mean 3.70 represents the enterprises are efficient in involving their owner/manager in preparing and using cash budget. The mean (3.65) represents the enterprises are efficient in accepting the target cash balance determined in business. Overall, the enterprises are said that the cash management practices are effective in their business.

5. Conclusion

From the findings, it is concluded that various cash management practices are applying in the SMEs. Majority of the enterprises are occasionally preparing a cash budget, sometimes getting cash shortage, cash surplus. SMEs are also preparing and reviewing cash budget for a period of a month. It is found that the enterprises are efficient in preparing cash budgets and they are efficient in involving their owner/manager in preparing and using cash budget. Also, the enterprises are efficient in accepting the target cash balance determined in business. Overall, the enterprises are said that the cash management practices are effective in their business.

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